

FINS5530

FINANCIAL INSTITUTION MANAGEMENT

Session 1, 2003
School of Banking & Finance
Faculty of Commerce & Economics
University of NSW

Web address: <http://banking.web.unsw.edu.au/>

Lecturers

Vic Edwards
(Senior Lecturer-in-Charge)
QUAD3047 Tel 9385 5866
v.edwards@unsw.edu.au

Anatoly Kirievsky
Lecturer
QUAD3043 Tel 9385 5853
a.kirievsky@unsw.edu.au

Consultation times will be posted on lecturer's doors during 1st week of session.

Lecture Time

TUESDAY A Stream 16.00 p.m. - 19.00 p.m.
THURSDAY B Stream 18.00 p.m. – 21.00 p.m.

Room

CLB 1
WEBSTER A

THE UNIVERSITY OF NEW SOUTH WALES
SCHOOL OF BANKING AND FINANCE

FINS5530 FINANCIAL INSTITUTION MANAGEMENT

Accreditation

The Australian Institute of Banking and Finance (AIBF) is the principal professional association for the banking and financial services industry in Australia. This subject counts towards graduate membership. The AIBF has recently changed its policies concerning graduate and full-time student membership. For further information, contact:

Head Office:
Australian Institute of Banking and Finance
19/385 Bourke Street
Melbourne, Victoria 3000.
Tel (03) 9602-5811
E-Mail: nsweo@aibf.com
Website www.aibf.com

NSW Regional Office:
Level 5, 51 Pitt St.
Sydney NSW 2000
Phone: 61 2 9252 1122
Fax: 61 2 9252.1177

Prerequisites

Prerequisite or corequisite for this course is: FINS5513 Security Valuation & Portfolio Selection

Course Objectives

The unifying theme in this subject is the application of modern finance theory and financial modelling techniques to financial decision-making and risk management in financial institutions both domestic and international. Topics include: (i) Objectives of financial institutions from the perspective of portfolio, hedging and agency theories; (ii) Application of portfolio, arbitrage pricing, option pricing and corporate finance theories, to the management of assets, liabilities, capital structure and off-balance sheet operations of financial institutions; (iii) Interest rate risk management and financial futures; (iv) Liquidity risk management; (v) Loan portfolio management, credit evaluation models, loan pricing and credit rationing; (vi) Capital adequacy and prudential regulation and management.

At the conclusion of the course students are expected to be able to:

1. Identify the main types of risk confronted by financial institutions;
2. Apply relevant techniques to measure and manage those risks; and
3. Make an informed contribution to the discussion of contemporary issues in financial institution management in an international context, as they affect financial institutions, their owners, managers, employees and customers.

Pedagogy

The text for the subject, Anthony Saunders and Marcia M Cornett, Financial Institutions Management - A Modern Perspective, 4th Edition, Irwin McGraw-Hill, 2003, is a U.S. based text, and together with Warren Hogan et al. Management of Financial Institutions form the basis

for the lecture material in the course. Saunders is the best book using the risk management approach to managing financial institutions while the Hogan book is used for providing the Australian institutional background and also for case study and some tutorial work.

Teaching consists of a two-hour lecture and a one hour tutorial/workshop. The lectures will complement the compulsory texts and readings for the course by reinforcing the analytical material in the required readings, and by drawing on recent developments in the management of financial institutions through media reports. The tutorial/workshops will involve problem-solving and questions to assist in understanding the risk management techniques. The tutorial/workshop questions and problems can be downloaded from the School of Banking & Finance website one week beforehand but the solutions will only be available within the hour set aside in class for this purpose. The UNSW Library will also run a website for copyright course publications. As this is a new service – exact details are not available at the time of writing – but I intend to place some readings on this site.

This year we are introducing for the first time in this M.Com. subject, some adjunct lecturers from industry to teach some applied sections of the course. These lecturers, besides having excellent academic qualifications also currently hold very senior positions within the finance or banking industry and will be able to impart their special knowledge and hands on experience to students. These lecturers will include: Dr. Neil Esho, Head of Research, Australian Prudential Regulatory Authority, Mr. Simon Arraj, CEO of Checkpoint Finance, Mr. Andrew Adamovich, Executive with Centre Solutions (Asia) Ltd – member of Zurich Financial Services specialising in securitisation/structured finance.

Assessment

Continuous Assessment from Tutorials/Workshop	20%
Consisting of: Student presentation & Attendance	15%
Tutorial Participation	5%
Extra 5% bonus for meritorious work	5%
Mid-Session 1 hour M/C Exam	30%
Final Examination (M/C, Essays and Problems)	<u>50%</u>
Total Assessment	105%

All lecture material, tutorial/workshop material and required reading will be examinable. Most of the lecture required reading is listed below for each of the topics. Other compulsory reading will be advised in class.

Note that students are able to drop courses without penalty (though fees are payable) prior to the end of Week 8.

Special Consideration

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures":

"Students who believe that their performance in a subject, either during session or in an examination, has been adversely affected by sickness or any other reason should inform the Registrar and apply for special consideration in the determination of their standing. The application must be made on the 'Application for Special Consideration' form available from the Student Centre. This application explains the specific information the University requires in order to make a decision.

Such requests should be lodged as soon as practicable after the occurrence and in any event no more than seven days after the final examination in a subject."

A photocopy of all material supporting an application for special consideration, as lodged with the Registrar, must also be provided to the Lecturer-in-Charge within seven (7) days of any event for which special consideration is sought.

Students should be aware that 'minor' ailments are not eligible grounds for special consideration. Any unsubstantiated request for special consideration will be considered to be 'minor'.

Students are expected to complete their work in a timely manner so that an illness in the last few days will not jeopardise the submission of their assignment. Such illness will not constitute grounds for special consideration.

Supplementary Examinations

Please note the following policy of the Faculty of Commerce and Economics concerning supplementary examinations:

the lodging of applications for special consideration does not guarantee that supplementary assessments will be granted.

it is the responsibility of the students who apply for special consideration to be available for supplementary assessments during the specified period (holiday plans are not sufficient reason for non-availability).

Supplementary exams may involve an oral examination as well as the written exam. If a student is granted a supplementary examination but does not attend that supplementary examination, he/she will not be granted further assessment except in exceptional circumstances.

Students are advised that if they are intending to travel overseas at the end of the session/year, they should consider taking out travel insurance which allows supplementary examinations as valid circumstances for cancelling travel.

Academic Misconduct

Attention is drawn to the following extract from the University of New South Wales Calendar "Procedures":

Academic Misconduct

Students are reminded that the University regards academic misconduct as a very serious matter. Students found guilty of academic misconduct are usually excluded from the

University for two (2) years. Because of the circumstances in individual cases, the period of exclusion can range from one session to permanent exclusion from the University. The following are some of the actions which have resulted in students being found guilty of academic misconduct in recent years:

1. taking unauthorised materials into an examination;
2. submitting work for assessment knowing it to be the work of another person;
3. improperly obtaining prior knowledge of an examination paper and using that knowledge in the examination;
4. failing to acknowledge the source of material in an assignment.

A most common offence is **plagiarism**. **Plagiarism** entails taking and using as one's own, the thoughts or writings of another without acknowledgement including:

- (a) where paragraphs, sentences, a single sentence or significant part of a sentence which are copied directly, are not enclosed in quotation marks and appropriately footnoted;
- (b) where direct quotations are not used, but ideas or arguments are paraphrased or summarised, and the source of the material is not acknowledged either by footnoting or other reference within the text of the paper; and
- (c) where an idea, which appears elsewhere in print, film or electronic medium, is used or developed without reference being made to the author or the source of the idea.

Students should check the following Faculty website for further information:

http://www/fce.unsw.edu.au/current_students/responsibilities.shtml#misconduct

Code of Conduct

While casual conversation related to class material is acceptable, continued distractions caused by one or a group of students will not be tolerated. Such distractions reduce the ability of the lecturer to deliver material and, furthermore, reduce the ability of students to comprehend the material. This provides for a less-than-optimal learning environment, which is not acceptable.

Education Development Unit

Additional learning support, tailored to the needs of FCE students, is available from the Education Development Unit (EDU) in the Faculty. The EDU offers a range of services for FCE students including:

- Academic skills workshops run throughout the session;
- Printed and on-line study skills resources e.g. referencing guide, report writing and exam preparation;
- A drop-in resource centre containing books and audio visual material that can be borrowed;
- A limited consultation service for students with individual or small group learning needs.

More information about the EDU services including on-line resources, workshop details and consultation request forms are available from the EDU website.

Contacts and location:

EDU Web: <http://education.fce.unsw.edu.au>

EDU Location: Room 2039, Level 2 Quadrangle Building

EDU services are free and confidential and are available to students of the Faculty of Commerce and Economics.

Other UNSW support

In addition to the EDU services, the UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by Phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>. Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contact on 9385 5418.

Texts

Anthony Saunders and Marcia Milton Cornett, Financial Institutions Management: A Modern Perspective, 4th (International) Edition, Irwin McGraw Hill, New York, 2003.

Warren Hogan et al. Management of Financial Institutions, 5th Edition, John Wiley & Sons Australia Ltd, 2001. Case Studies are accessed on <http://www.johnwiley.com.au/highered/mfi/case2.pdf>

References

S.J. Greenbaum and A.V. Thakor, Contemporary Financial Intermediation, The Dryden Press, 1995.

W. Hogan & I. Sharpe, "Prudential Regulation of the Financial System: A Functional Approach", Agenda V4 #1, 1997, pp. 15-28.

T.W. Koch, Bank Management, Dryden Press, 2nd Edition, 1992.

B. Shanmugam, C. Turton, and G. Hempel, Bank Management, Wiley, 1992.

J.F. Sinkey, Jr, Commercial Bank Financial Management in the Financial Services Industry, 6th Edition, Prentice Hall, 2002.

V. Edwards in D. Morrison, "Study Guide for the Handbook of Australian Corporate Finance" 5th Edition, Butterworths, Sydney 1997, Chs 2 and 7

V. Edwards * A number of Readings from my own publications will be put in the Library. I hope these will provide a summary of some of the materials contained in the prescribed textbooks.

LECTURE OUTLINE & REQUIRED READING

Week	Topic	Required Reading
1 (VE)	Introduction and Overview of the Financial System	S Chs1 & 2 H Chs 1 & 2
2 (VE)	As Above + Banks & Non-Banks Structure & Environment	Edwards*: Module 2
3 (VE)	Performance Analysis & Strategic Planning	H Ch 3 Sinkey Ch 7 (pp.201-205)
4 (VE)	Risks of Financial Intermediation Credit Risk-Qualitative Models	S Ch 11 (pp.260-281); H Chs9&10 Edwards:* Credit & Lending
5 (VE)	Credit Risk-Quantitative Models And Credit Risk Management Techniques	S Ch 11 (pp.281-297) Ch 25 (pp.672-673), Ch 26 (pp.708 -711); H Chs 11 & 12 Edwards:* Credit & Lending
6 (VE)	The Electronic Payments System	Edwards*: Module 4
7 (MD)	Interest Rate Risk - Gap & Duration Analysis N.B. Easter Recess Follows Week 7	S Ch. 8 (pp. 164-174) & Ch. 9 H Ch 4
8 (MD)	Interest Rate Risk - Duration Analysis	As for Week 7
9 (MD)	Interest Rate Risk Management Using a selection of techniques from Forwards, Futures, Options, Caps, Floors, Collars and Swaps	S Ch 24 (pp.620-636) Ch 25 (pp.653-660 & 664-670) Ch 26 (pp.690-697) H Chs 13, 14 & 15
10 (SA)	Off-Balance-Sheet Risk	S Ch 13; H Ch 2
11 (SA)	Capital Adequacy	S Ch 20 (pp.511-542) H Ch 1 Appendix A
12 (AA)	Loan Sales & Securitisation	S Chs 27 & 28 Edwards*: Module 6
13 (NE)	Deposit Insurance and Regulation	Saunders Ch 19 (pp. 475-502) Hogan and Sharpe pp15-28 Costello (1997)
14	Self Review for Exam	

WORKSHOP/SEMINAR PROGRAM

Workshop/Seminar Program starts in Week 2 and covers weeks 1&2

Week	Topic	Workshop Questions
(1) 2 VE&AK (2)	Make sure tute enrolment is completed Introduction and Overview of the Financial System	H Ch 1 Qs 2, 5, 6 & 7. Ch 2 Qs 1& 7 Ch 3 Qs
2 VE&AK	As Above + Banks & Non-Banks Structure & Environment	Edwards* Ch 2 in Morrison All Questions
3 VE&AK	Performance Analysis & Strategic Planning	H Ch 3 Qs 1, 2 and 4
4 VE&AK	Risks of Financial Intermediation Credit Risk-Qualitative Models	S Ch 11 Qs 1,2,3,5,10,15 Edwards Ch7 in Morrison Problem Questions 1,2 & 3
5 VE&AK	Credit Risk-Quantitative Models And Credit Risk Management Techniques	S Ch 11 Qs 17,18 & 21 Ch 25 Qs 1 to 4 Ch 26 Qs 1-3 & 8 and 23
6 (VE)	The Electronic Payments System	Hogan Discuss Case Study No.3
7 (MD)	Interest Rate Risk - Gap & Duration Analysis	tba by Mr. Michael Davies
8(MD)	Interest Rate Risk - Duration Analysis	tba as above
9 (MD)	Interest Rate Risk Management Using a selection of techniques from Forwards, Futures, Options, Caps, Floors, Collars and Swaps	tba as above
10 (SA)	Off-Balance-Sheet Risk	tba by Mr. Simon Arraj
11 (SA)	Capital Adequacy	tba as above
12 (AA)	Loan Sales & Securitisation	tba by Mr. Andrew Adamovich
13 (SA)	Deposit Insurance and Regulation	tba by Dr. Neil Esho